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State Rules: oil companies and armed conflict in Sudan

LUKE ANTHONY PATEY

ABSTRACT *The strategic behaviour of international oil companies in war-torn Sudan was overwhelmingly driven by political pressure from governments. After almost 20 years of operating in Sudan, the US giant Chevron was pushed to withdraw as a result of deteriorating relations between Washington and Khartoum. The Canadian flagship oil company, Talisman, which helped kick-start oil development after Chevron's exit also fell victim to Washington's ire. On the other hand, the European junior oil companies, Lundin and OMV, protected by the European Union's political standpoint of 'constructive engagement' in Sudan, were free to profit. Finally, the eastern parastatals, led by a surging China, eager to capture international energy resources to fuel their budding economies and supported by the plural relationships fostered between their respective governments and the ruling, riverine elite in Khartoum, tactfully established a dominating presence. While fervent international human rights advocacy alone seemingly drove susceptible Western firms out of Sudan, the real power behind corporate movements came from the rules dictated by states.*

Multinational Corporations (MNCs) have played a significant role in some of the most destructive civil wars of the developing world. From Colombia, Sierra Leone, Angola, the Democratic Republic of Congo and Azerbaijan to Burma, MNC engagement has aggravated conflict and fed pervasive corruption through the extraction of lucrative natural resources, such as oil and natural gas, timber, diamonds and other precious minerals. The case of Sudan is yet another example where economic development spurred on by MNC activity has had deadly consequences, benefiting but a few in an impoverished population. For the past 50 years international oil companies have explored the burning coasts and diverse terrain of the Sudan for precious 'black gold' amid harrowing civil war. With the country mired in conflict since its independence, it comes as no surprise that MNCs should become embroiled in the dynamics of Sudan's second civil war between the central government in Khartoum and the insurgent Sudan People's Liberation Army/Movement (SPLA/M) from the South. Oilfields were heatedly contested areas of strategic control between warring factions and

Luke Anthony Patey is a PhD student at the Danish Institute for International Studies, Strandgade 56, Copenhagen 1401, Denmark. Email: lpa@diis.dk.

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witness to horrendous human rights violations against civilian populations. The activities of MNCs eventually provided Khartoum with a source of revenue to strengthen its brutal military machine. As a result, fervent international human rights advocacy moved to clear the indirect, but nonetheless detrimental, corporate influence on an already devastating civil war.

Non-governmental organisations (NGOs) seemingly drove susceptible Western oil companies out of the war-stricken country. Paradoxically Western abandonment allowed state-owned corporations from China, Malaysia and India, largely invulnerable to human rights pressures, to form a stranglehold on Sudan's oil industry. However, lost in this vast contradiction was the real power behind these corporate movements. An in-depth examination of the strategic behaviour of international oil companies in Sudan finds that MNC decision making is dictated by an interaction between the distinct corporate character of each company and their sensitivity to the conflict-risk factors emerging from the host country and international environment. In this complexity of factors, regardless of whether it was a US major, Western junior, or upstart Eastern state-owned corporation, rather than human rights pressures exerting the overwhelming force on oil companies, actual influence came from the political pressure of governments. The directives of Washington and Beijing particularly stood out, as the reigning global power and its brazen challenger weighed in with their political and economic interests in Third World Sudan. State rules directed corporate behaviour.

Multinationals and armed conflict

No longer over-shadowed by the patronage politics of the Cold War, international NGOs have presented the detrimental influence of corporations in conflict-affected countries in connection with the 'blood diamonds' and 'scorched earth' of contemporary civil war.[1] The emerging role of corporations in civil war was also highlighted by the United Nations in its innovative 'name and shame' campaigns.[2] In combination with these advocacy and intergovernmental efforts, an ever-questioning academy placed the activities of MNCs in conflict-affected countries within the economic dimensions of 'new wars'.[3] It was argued further that economic considerations, access to relief aid and indeed an abundance of natural resources were crucial in motivating warring groups.[4] Conflicts were seen now to contain a self-financing nature, with the exploitation of natural resources providing the fuel, and regional and international linkages in a globalised world the ignition, for civil war.[5] The emergence of a market-driven global economy saw the proliferation of MNCs throughout the world, further upsetting the socioeconomic and political stability of conflict-affected countries, altering the character and prolonging the length of civil wars.

So-called 'resource wars' have demonstrated the particularly frustrating resolve of private sector activity in undermining incentives for peace. While some interventions, such as diamond smuggling, are illicit in nature, aiming to profit directly from the instability of war, others are legitimate, for

instance MNC activity in Sudan's oil industry, but nonetheless have an adverse influence on conflict.[6] Indeed, both governments and rebel groups have utilised private sector actors as vehicles to earn the needed revenue and establish the required international connections to access military arms and continue fighting. Furthermore, the private sector has provided a source of self-enrichment for ruling elites, which in many cases has magnified the political and social grievances that brought on conflict in the first place. In response, international NGOs have spearheaded the development of policy instruments, such as the Extractive Industry's Transparency Initiative (EITI) and US/UK Voluntary Principles on Security and Human Rights, to influence a significant part of the demand-side of the equation—MNCs—in order to alter the oppressive and exploitive practices of governments in conflict-affected countries, representing much of the supply-side. Extractive industry corporations are essential in producing the value from natural resources through enormous capital investments, advanced technology, technical expertise and access to international markets.

Corporations in the extractive industries of petroleum, mining and timber represent much of the legitimate side of the private sector prevalent in conflict-affected countries. These MNCs, compared to their counterparts in manufacturing or services, more often remain in conflict settings because of the sizeable, fixed and capital-intensive nature of their investment. However, beyond these fundamental attributes, extractive industry corporations should not be regarded as one monolithic actor. Characteristics such as company size, market of operation, and ownership structure differentiate corporations between one another.[7] For instance, in an industry dominated by a handful of majors, junior-sized oil corporations have filled a market niche by operating in high-risk countries such as Sudan. The contrast in characteristics between corporations is especially stark when each MNC's country of origin is taken into consideration. Corporations originating from North American or European countries, where relatively high expectations of corporate responsibility exist, are more compelled to take on human rights-sensitive and financial transparency measures to avoid emerging reputation and legal costs that can be incurred in home markets.[8] On the other hand, the state-owned oil companies of rising developing economies, such as China, India and Malaysia, have little pressure from their home constituencies concerning the human rights consequences of their activities in conflict settings. In fact, these corporations have discovered a competitive advantage through operating in conflict-affected countries, given the reluctance of Western oil majors to do so. Thus, given these emerging dynamics, the inherent, long-term engagement of corporations is not related to an individual MNC's investment, but simply to MNC investment as a whole.[9] Some companies will venture where others stray specifically because of the varying characteristics between them.

It is the interaction between company characteristics and conflict-risk factors that dictates whether an MNC will enter or remain engaged in a conflict-affected country. After a corporation is drawn in by geological and economic details of the resource in question, it must then consider a slew of

conflict-risk factors, such as those related to security, political expropriation, stoppage time because of suspended operations, difficulties in raising capital, and potential litigation and reputation costs that arise in home markets.[10] Thus, in accordance with their individual characteristics, corporations aim to avoid conflict-risks transforming into company costs. Understanding this decision-making process is critical in comprehending MNC behaviour in conflict-affected countries. It is certainly of value for uncovering the limitations of human rights pressure on corporations and the effectiveness of policy instruments forwarding conflict-sensitive practices. Even when considering commercially legitimate MNC activity in the oil industry of Sudan, the diversity of the global private sector has proven resistant to the normative coercion of international NGOs. Altogether the inherent qualities of MNCs in the extractive industry make them central pieces in the complex puzzle of economic calculations in contemporary civil wars.

Sudan, civil war and oil

There exist many impressions of Africa. One in particular is of a continent overwhelmed by unrelenting civil war. Unfortunately the reality of conflict in Sudan falls squarely into this perception. A former Anglo-Egyptian colony, Sudan gained independence in 1956 and immediately fell into internal conflict. The civil war was largely one of seccession, a result of continual economic and political neglect of the South by the northern government, a tendency that was an extension of the country's colonial legacy. Following an 11-year span of relative peace resulting from the signing of the Addis Ababa Agreement in 1972, regional marginalisation still held meaning when the second civil war broke out. Rather than outright independence, this was largely a war of forming a 'New Sudan', where inclusive governance would become the norm. A collection of rebel groups in the South, ever-distrustful of Khartoum, fought the government under the eventual banner of the SPLA/M. The civil war further devastated the country, particularly the South, leaving an estimated two million Sudanese dead and double that amount displaced.[11] Beyond the popular portrayal of the conflict as one of racial and religious hatreds, fought between Arabs and Africans or Muslims and Christians, it seems that all the possible causes of civil war that have long plagued the African continent found their way into the meaning of Sudan's North–South civil war.

From the outbreak of the North–South civil war in the early 1980s until its formal end after the signing of the Comprehensive Peace Agreement (CPA) greed, retribution, poverty, external intervention, and religious and ethnic divides all motivated violence. However, the overarching cause of the civil war remained the same as the one before it: a historical consistency of oppressive governance from Khartoum promoting regional marginalisation and exploiting social divisions.[12] Indeed, at the turn of the century, with the North–South civil war approaching a formal end, Sudan was denied even a moment's peace as longstanding sentiments of neglect and exploitive intervention from the Khartoum government fostered growing rebellion in

the western region of Darfur, leading to a full fledged civil war.[13] It is in this context that the discovery and eventual production of oil by international companies weighed its economic might on civil war. The economic considerations in the civil war would rise considerably as oil development progressed precariously along the traditional North–South border.

It was no mere coincidence that oil was found in Sudan at the same time as the return of civil war. In 1983 the Khartoum government, at that time led by President Jaafar Mohammad al-Nimeiri, violated the standing Addis Ababa Agreement and continued along historical lines of political and economic marginalisation of the South. In addition to establishing *sharia* law in the entire country, including the Christian and animist South, and dissolving the Southern Regional Assembly, Nimeiri moved to alter southern state boundaries to ensure the North would have access to future oil earnings. The rising influence of the Islamic Brotherhood, led by the then Attorney General, Hassan al-Turabi, realised the significance of Chevron's findings in the South would later succeed in changing state boundaries once in power of the government as the National Islamic Front (NIF). These ongoing political and economic violations of established agreements inflamed grievances among southerners to the point of war.[14] As civil war re-emerged in Sudan, Khartoum's political manoeuvres to capture oil reserves would also be accompanied by on-the-ground tactics that contributed to existing processes of the economically related violence that would eventually characterise the North–South civil war.

Similarly to other incidences of intra-state war in the developing world, one particular cause of the enduring character of civil war in Sudan stems from combatants not necessarily seeking the defeat of the opposing side, but rather the fulfilment of economic interests. While the principle antagonists of war certainly fostered both political and economic intentions behind their actions, the Sudanese government's military sponsorship of Misiriyya and Baqqara nomadic tribes in the North transformed violence into a way of life. Khartoum encouraged ethnic tensions by granting Arabic herdsmen an unwritten licence to pillage and destroy the communities of the Dinka and Nuer African pastoralists of the South; it would repeat this 'divide-and-rule' tactic later in Darfur. The government wished to deny rebels access to the resources and recruits these southern communities could provide, to prevent the SPLA from uniting destitute groups in the South with those in the North, and to ensure a power base that would, later on, grant access to lucrative oil reserves.[15] Since few other economic opportunities existed in the country, deprived Arab nomads sustained themselves by raiding southern communities, regardless of their affiliation with the SPLA. As a consequence, grievances grew within the settled populations and retribution was sought through further violence. Thus higher-level military directives to gain control of oil-bearing regions bore local conflicts. Oil development would also later empower Khartoum's brutal military campaign.

The Sudan Armed Forces was keen on laying waste to local communities in the South to ensure there would be nothing to threaten oil development. Along with its armed militias, Khartoum terrorised civilian populations with

improvised Antonov bombers and helicopter gunships that became more readily available as oil revenues grew. In the early 1990s Khartoum further solidified its position by exploiting internal divisions between the Dinka and Nuer ethnic ranks of the SPLA. The resulting military advance and continual civilian displacement would open up strategic oil-bearing areas.[16] International oil companies were seen as complicit in the violence and displacement, providing the government with revenues for large military purchases.[17] In sum, oil development exacerbated the North–South civil war by representing an economic prize for Khartoum that held aggravating consequences for conflict dynamics at national and local levels. As the government advanced to capture territory in oil-bearing regions and the SPLA moved to disrupt exploration and extraction activities, the economic logic of the conflict rose substantially. As in other cases of civil war in the developing world, Sudan demonstrated that MNCs in the extractive industry were essential as economic vehicles that allowed domestic actors to realise value from natural resources. This detrimental influence underlines the urgent need to find solutions that ensure extractive industry corporations indeed 'do no harm' in conflict-affected countries. However, without understanding the forces that govern corporate decision making, it is a futile task to attempt to influence their movements and practices.

First come, first served: just desserts for Chevron and Arakis

It was the oil major Chevron from the USA that made the first and most critical steps in advancing Sudan's oil industry. The MNC also set the tone for future oil companies in the country by demonstrating how corporate character would have to negotiate a hostile domestic and international environment if petroleum resources were to be exploited. Chevron had arrived in Sudan as a consequence of international politics. The Yom Kippur War of 1973 and coinciding oil embargo against the West for its support of Israel by King Faisal of Saudi Arabia and other Arab states forever changed the nature of the international oil industry. One result was that it drove Western oil companies to explore for petroleum resources more aggressively outside the borders of the Organization of the Petroleum Exporting Countries. In Sudan, although AGIP from Italy had made gas discoveries in the Red Sea in the early 1960s, it was Chevron that made the bold move in the 1970s to conduct extensive onshore exploration activities, mapping out the Muglad and Melut basins, with major discoveries at Bentiu (later to be renamed Unity), Heglig and Adar Yale. It was two years after the signing of the Addis Ababa Agreement in 1972, putting an end to Sudan's first civil war, when Chevron was granted the right to explore Sudan's onshore oil potential by President Nimeiri. And just as peace brought to life the US giant's operations in Sudan, war would bring them to an end.

Despite numerous discoveries, Chevron suspended plans to bring Sudanese oil to market in 1984 after an attack on its facilities by the rebel group Anyanya II killed three workers.[18] In the eyes of many in the South Chevron was clearly an ally of a repressive northern government. The $1 billion

Chevron and its partners had invested was in jeopardy. The insecurity of operating in the South became too much of a risk for the company to take given low international oil prices. Some in the Ministry of Energy and Mining (MEM) in Khartoum were sceptical that the blaze of three minutes of gunfire at Chevron's Rebkona camp near Bentiu was enough justification for the suspension. The insecurity cited by Chevron was regarded as a pretext for simply waiting until the political or economic situation made Sudan's relatively small oil reserves at the time more valuable to exploit. Only with the conditions for a *force majeure* could Chevron avoid its contract being rescinded by the government because of its failure to fulfil its scheduled operational obligations.[19] The fact that the company had similar risky operations across the continent in the war-torn, but more lucrative, oil-region of Cabinda in Angola angered officials in Khartoum. Thus the government was unsympathetic to the company's stated dilemma and threatened to terminate its contracts if it did not move forward with operations.[20] The start of the second North–South civil war and political upheaval in Khartoum would spare Chevron some time, but when Omar al-Bashir became president of Sudan after a bloodless military coup in 1989, orchestrated by Turabi's NIF, Chevron's misfortune would continue.

Once Khartoum's elite had sorted themselves out, the focus fell again on the urgency to develop the country's oil resources. Funds were required to fend off a surging SPLA and implement an ambitious Islamisation project. The NIF understood the need to secure the oilfields and moved towards gaining control of strategic areas in the South by implementing a *cordon sanitaire*, a task that would be led by proxy *mujahideen* militias. However, Chevron had grown weary of the revolving military and democratic governments in Khartoum throughout the 1980s and was unconvinced that the NIF would last much longer than its predecessors. Although the NIF was eager for the oil major to be the company to develop its petroleum reserves, its utter need for finances outweighed its patience, and it promptly threatened the company to restart or lose its assets. For Chevron the legacy of political ambiguity in Sudan, and continual unattractive economic conditions for the company as an oil major seeking considerable payoff, made Sudan not worth the trouble. More importantly, at the same time, Chevron's own government in Washington was showing signs of disapproval of Khartoum, not helping the company's increasingly weak bargaining position.

The relationship between Sudan and the USA had gone through numerous political oscillations in the aftermath of the Six Day War in 1967 and throughout the Cold War, taking a downward plunge when the Palestinian Black September group assassinated the US Ambassador in Khartoum in March 1973, but recovering as Chevron became more active in the country.[21] Nonetheless, as civil war broke out in Sudan and Chevron suspended its operations, the USA became uneasy with both the domestic situation (the imposition of *sharia* law set off alarm bells on Capital Hill) and with its external projections. Although Sudan was far from representing a major item on Washington's foreign policy agenda, when the NIF came to power in 1989 with a strong Islamic stance, a series of resulting international events would

prove destructive to US–Sudanese relations. While as ambassador to the United Nations George HW Bush was keen to point out potential petroleum wealth to Sudan, as president in a post-cold war era he was less inclined to maintain positive relations with Khartoum. In Washington Khartoum's open-door policy to seemingly every Islamic militant group on the planet, including rising US nemesis Osama bin Laden, its support of Iraq during the Persian Gulf war, and its links with the World Trade Center bombings in New York in 1993 and two years after with an attempted assassination attempt on Egyptian President Mubarak in Addis Ababa, was enough to place Sudan on the US list of states sponsoring terrorism as well as lead to the imposition of UN sanctions.[22] Therefore, in addition to pressure from Khartoum to either restart its activities or face expulsion, Chevron's fate was sealed when relations between its home and less-than-gracious host government completely deteriorated. The company pulled out of Sudan in 1992.

But the end of the Cold War would also present promising opportunities. The reopening of the Caspian Sea region to international oil companies led Chevron into independent Kazakhstan, with the US government providing the incentive of an impressive $550 million tax write-off for its travails in war-torn Sudan.[23] Altogether political pressure from Washington and Khartoum forced the MNC to exit. The NIF had lost access to the world's biggest economy but was now free to break away from Nimeiri's shadow and manage Sudan's promising oil industry as it pleased.

The immense financial power and seasoned experience of Chevron was replaced by an unknown company from Canada whose only experience in the oil industry was in developing the gas wells of Kentucky. The contrast could not have been greater. However, there was a method to Khartoum's apparent bald-faced madness. It was partially a question of control, but more so one of necessity. The NIF wanted to put its house in order after having to play high politics with Chevron and Washington. It thus relied on personal connections through a string of small-sized companies to push forward the advancement of its oil industry.[24] Chevron sold its concessions at Unity and Heglig, Blocks 1, 2, and 4, to a private Sudanese corporation, ConCorp for the bargain basement price of $23 million. ConCorp's lack of experience in the oil industry and ties with Hassan al-Turabi through owner Mohamed Abdullah Jar el-Nabi clearly revealed Khartoum's demand for control. However, in rapid fashion el-Nabi sold the concessions to State Petroleum Corporation, a company from Vancouver existing more on paper than in reality. State was established by its owner Lutfur Khan—who had his own connections with the NIF—solely to gain the rights to Sudan's oilfields.[25] But the fact was that neither ConCorp nor State could produce many actual results in terms of oil development. When Arakis took over its fellow Canadian firm State in 1994 it was clear that little had changed. It simply fell well short of possessing the required capital to launch significant oil production through an export pipeline, and continually failed to raise the appropriate finances, leading the company into shady dealings that resulted in severe legal turmoil.[26] Such an outcome could have been avoided were it not for Washington's apparent interjection that denied Arakis the

opportunity to enter US financial markets.[27] Arakis may have been the champion of the neophytes, but it was definitely not up to the task of developing Sudan's petroleum resources.

The withdrawal of Chevron and deteriorating relations with Washington meant that a large portion of the international oil industry, namely US companies, was off limits to Sudan. Like Chevron, other oil majors such as British Petroleum, Royal Dutch Shell, and Total had shied away from exploration and production activities in the conflict-ridden country during the 1980s. As a result, rather than representing a calculated strategy by the NIF to use small-sized oil companies because of their disposition to turn a blind eye to gross human rights violations in oil-bearing regions,[28] it was a lack of available options in the early 1990s that was key to the decision. A transition period had to be taken to find willing, but also capable, corporate partners. Arakis may have navigated the political waters in Khartoum well, but it was clear that companies interested in entering Sudan also needed the appropriate finances, experience and technology to succeed. Later Khartoum would manage to assemble a grouping of Western junior-sized oil companies and state-owned corporations from the East to do just that.

Western juniors: market exceptions in war-torn Sudan

After the oil price crash of 1986 mid-sized, independent oil companies predominantly from the West were facing a predicament. Since junior oil companies are more susceptible to price fluctuations than majors, given the relatively limited span of their international operations, they were forced more so than in the past to carve a niche market out of conducting exploration activities in places the oil majors would generally not enter.[29] These companies also typically could avoid boycott pressures often feared by oil majors given their lack of downstream operations. Thus, when Arakis sold 75% of its rights to Blocks 1, 2, and 4 in December 1996 to form the Greater Nile Petroleum Operating Company (GNPOC), a consortium of the state-owned companies China National Petroleum Corporation (CNPC) at 40%, Petronas from Malaysia (30%) and Sudapet, the national Sudanese oil corporation (5%), industry confidence in the possibility of bringing Sudan's oil to market grew. The new partners, particularly the Chinese, would supply the long-sought funds to advance the development of a 1600 km pipeline to Port Sudan.[30] These developments and a lack of US competition spurred on Canadian and European oil juniors to enter the Sudan gamble.

In 1998, with Arakis still having financial problems, its Canadian counterpart, Calgary-based Talisman, would purchase the company and provide the final financial and technical thrust needed to bring Sudan's oil industry quickly online a year later. Talisman was a Western junior with a major legacy, having once been the Canada branch of British Petroleum. It insisted on having control of the procurement department at GNPOC as part of its 25% share in the consortium and through it would very much direct the technical progress of GNPOC.[31] Talisman was Canada's flagship oil company and eager to find strong growth possibilities on the frontier of the

international oil industry, aiming for a 20% increase in production.[32] Over the next three years the MNC would succeed in fulfilling the goal. Sudan quickly developed into one of the company's prize assets. In 2002 the Canadian firm's production shares from GNPOC were close to matching its results in traditional North American operations: Sudan represented 22% of the company's total oil production.[33] Talisman benefited from rising output and the relatively low production costs in Sudan, making up for a lack of growth in its other international operations. However, the company was not the only one profiting from oil production. Oil revenues had given Khartoum a significant financial lift, allowing it to enhance its military capabilities. Arms purchases from Russia and China allowed the government to increase its use of Antonov bombers and helicopter gunships to flatten villages in the South and guarantee an undisturbed flow of oil. However, the strategy had its consequences.

In North America and Europe international oil companies operating in Sudan were increasingly seen as accomplices in the mass displacement and killing of hundreds of thousands of civilians. Talisman was particularly susceptible to these pressures as the Canadian company had significant institutional shareholders with no interest in being associated with the violence. However, despite the intense reputational damage the company was suffering, it was a threat to its capital raising capability on the New York Stock Exchange (NYSE) that made it take notice. Washington was far from finished with Khartoum. US foreign policy in Sudan had gone from reactionary to coercive by the late 1990s. The NIF's misadventures in terrorism eventually led the Clinton administration to impose US sanctions on Sudan in 1997 and to support Khartoum's regional enemies in an effort to bolster the SPLA's position in hopes of a regime change on the Nile.[34] Furthermore, in August 1998, three days after Talisman announced its engagement in Sudan, US Tomahawk cruise missiles slammed into a suspected chemical weapons plant in Khartoum North. Despite this, the mood in Washington remained somewhat nonchalant and unco-ordinated concerning Sudan until George W Bush was elected president in 2000. Sudan held an important place on Bush's Africa agenda, given the interest of conservative Christian republicans and the Congressional Black Caucus in seeing an end to the conflict and its many ills.[35] Lobbying efforts completely cornered Khartoum when they were fortified further by the American Israel Public Affairs Committee. Consequently, the US Congress passed the Sudan Peace Act, which enhanced its humanitarian support in the country, brought it closer to the peace effort than ever before, but also included the provision of barring companies engaged in the country's petroleum industry from raising capital on US financial markets.[36] The latter point represented an unprecedented threat to Talisman's position.

Talisman's own government in Ottawa had taken another route. Although it expressed its concern and examined the company's activities in Sudan, it appeared more interested in the expansion of the Canadian oil industry overseas than in sanctioning potential complicity in human rights violations.[37] Nevertheless, the delisting threat from the US government alone

would prove to be more than enough to force Talisman out of Sudan. Although the US Senate later dropped the capital market provisions from the Sudan Peace Act, lest it set a precedent in weakening the competitiveness of US financial markets, a notable expression of Washington's own economic limits in protecting human rights, the mere likelihood of being taken off the NYSE heavily discounted Talisman's stock price at 24% less than similar companies in the industry.[38] Talisman announced the sale of its Sudan assets on 30 October 2002, obviously preparing to exit Sudan even before the final, toned-down version of the Sudan Peace Act was passed by the US Senate earlier in the same month. In the end, with Sudan's past links to terrorism as a backdrop, widespread activism proved effective against the Canadian firm precisely because it aligned with political pressure from a Washington that was not overburdened by economic interests, as the Sudanese oil sector was void of US companies. Talisman had made a hefty profit of Can$296 million from the sale of its interests in GNPOC to the Oil and Natural Gas Company (ONCG) of India. However, reflecting GNPOC's increasing production levels and Talisman's income of Can$184, $210 and $310 million, respectively, from 2000 to 2002,[39] the company was obviously in a poor bargaining position. It was pushed to abandon a growing asset in the face of mounting political pressure from Washington. Indeed, after the exit, company strategy revolved around the concept of 'post-Sudan'.[40] Company production levels would take a blow, but mounting world oil prices offset the loss.[41] While Talisman was an obvious victim of its political environment, other Western juniors had similar, but less devastating experiences in Sudan.

The Chinese-constructed pipeline headed towards Port Sudan would have the capacity to handle more than just GNPOC production. This attracted other Western companies to Sudan. In the adjacent Block 5A, the International Petroleum Corporation, previously active in the offshore Red Sea region of Sudan, was directed by its parent company, Lundin from Sweden, to enter the more promising onshore melee in 1997. Lundin would form a consortium, later known as the White Nile Petroleum Operating Company (WNPOC) with Petronas, OMV from Austria, and Sudapet in Blocks 5A and 5B of Unity and Jonglei state. Lundin was an explorer. Rather than the large-sized payoffs sought by the oil majors, Lundin focused its efforts on discovering petroleum deposits, and when findings were developed enough to be commercially viable, selling the assets to prospective producers. It was not overly preoccupied with long-term stability and was willing to negotiate the political and physical hazards that Sudan presented. The other European company, OMV, entered Sudan as a financial partner, keen to expand both its international exploration and its production activities. As with Talisman, the commercial aspirations of the two European companies would be hampered by allegations of complicity in human rights abuses. However, unlike Talisman, a lack of coincidental effective political pressure from states would make the repercussions of these allegations less severe.

The European Union's stance of 'constructive engagement' with Sudan would act as a political shield for Lundin and OMV. Both companies promoted their belief that oil development would contribute to economic and

social development in Sudan, but also noted explicitly that the EU's political position supported this understanding.[42] However, the companies were not completely sheltered from the realities of civil war. In the first years of the new millennium the contours of war in Sudan would shift as southern armed groups battled one another and Khartoum alike around the oilfields, loyalties swaying between rival factions. As a result, Lundin was forced to suspend activities following several attacks on its operations, bringing OMV along for the ride.[43] As a financial partner in the consortium, the Austrian firm would remain attached to Lundin's precarious coattails. Nonetheless, commercial success was achieved when Lundin discovered the lucrative Thar Jath field in January 2001. However, the celebration would be short-lived. On-the-ground violence from the civil war translated into an international publicity storm for the companies. The focus of international NGO campaigns was the violent legacy of Lundin's infamous oil road.[44] In reaction, Lundin went political. In addition to welcoming Swedish and foreign journalists to visit its operational area, it invited the governor of Unity State, where its cherished Thar Jath field was located, to Sweden to demonstrate the company's positive influence on local communities.[45] Lundin saw exceptional circumstances force it to detach itself from its apolitical principles. It engaged board member and former Swedish prime minister and UN Special Envoy, Carl Bildt, to join the ranks of peace makers in Sudan and underline the opportunity oil development provided in building such an outcome.[46] In spite of this intrigue, and in contrast to Talisman, for both Lundin and OMV, pressure from their home governments or Washington simply did not have the same capital market threats. The companies were permitted to be their profit-seeking selves.

A lack of real political pressure from governments allowed the European companies to reap financial rewards from exiting Sudan. In 2003 Lundin sold its rights in Blocks 5A to Petronas from Malaysia for $142.4 million. While there was further opportunity in developing the concession, the costs of considerable stoppage times because of insecurity concerned headquarters, and when Petronas made its impressive offer the decision became clear. OMV followed suit by divesting from both its concessions, selling them to ONGC for €105.6 million. Both companies were poised to use the sale as a launching pad to expanding their international activates. For Lundin the sale of Block 5A in Sudan allowed it to enter a higher echelon of the oil industry. In large part this was through the purchase of acquisitions in the North Sea that considerably increased the company's petroleum reserves and production levels.[47] As international oil prices increased, Lundin's new-found producer status elevated its earnings profoundly, from SEK-41 983 million in the red in 2001 to SEK993 975 million in the black in 2005.[48] Indeed, crude oil prices went from an average of $27.34 bbl in 2003 to $54.52 in 2005.[49]

With higher production levels resulting from purchases made from the Sudan sale, the coincidental sharp rise in oil prices allowed Lundin to complete the transition of moving from being a company highly reliant on one risky venture to one boasting a diverse set of international operations and a profitable future. As for OMV, it backtracked from its expansionist

agenda in its 'prime growth area' of North Africa and the Middle East by selling out from Sudan.[50] Instead, the Austrian company made the largest acquisition in its history by reverting back to the security and stability of the central and western European market through the purchase of a majority stake in the Romanian gas and oil company, Petrom.[51] The result was a dramatic increase in reserve and production levels that, with escalating oil prices, would vastly improved the company's fortunes. Net income rose from €393 million to €1495.8 million from 2003 to 2005.[52] The sale of its Sudanese assets freed up funds to purchase Petrom and made the rise in oil prices that much sweeter.

Unlike Talisman, Lundin and OMV held a political position in Sudan that permitted significant economic rewards. The extractive industry has a long history of risk taking, with a particularly high failure rate in exploration activities. However, risk levels increase greatly when companies move into the production stage, most notably in conflict-affected countries, because fixed assets are highly susceptible to the physical and political environment.[53] As a result, corporate managers are taskmasters of ensuring predictability and mitigating risk.[54] Sudan offered the opposite. The European oil companies, bearing witness to the trials and tribulations of their Canadian counterpart, were not keen on suffering the same fate should they move to production in Sudan. Hopes of oil production at the time appeared fleeting compared with those in more traditional markets. Thus, human rights pressures only had severe negative consequences for the Western juniors when supported by the policies of governments that had the political power to influence their corporate behaviour. Washington pushed Talisman to discard a lucrative investment at a questionable price, while European policy gave Lundin and OMV the room to leave Sudan with lasting financial benefits. Despite these different outcomes, the Western juniors would create another, more paradoxical result, in their exit from Sudan.

The last laugh: the hollow echo of the Eastern oil monopoly

In the end, besides clearing the conscience of many in the West, disinvestment campaigns against oil companies did not weaken Khartoum. The government's economic lifeline would remain intact. A brief but prosperous flirtation with junior-sized oil companies and escalating demand from Eastern economies to secure international petroleum resources in the late 1990s protected Khartoum from the normative eruption of the West. State-owned oil companies from China, Malaysia and India would dominate Sudan's oil industry as the Western juniors pulled-out. Fittingly, it was China, with the most urgent energy demands, that moved first. In 1995 Beijing's powerhouse oil company, CNPC, quietly bought the former Chevron concession of Block 6 in Western Kordofan and in the following years would tactfully begin to take over Sudan's oil industry. CNPC took the lead of the GNPOC in 1997 when Arakis sold much of its interest in the consortium. Khartoum had three priorities in evaluating bids made by the international oil companies that gathered to win the GNPOC concessions: that the terms of

the Arakis contract favourable to the government be kept; that the companies involved have the appropriate finances to develop the oil resources; and that construction of an export pipeline take place in rapid succession. CNPC satisfied all of the above and outbid the field by offering the government an oil refinery.[55] With Washington's watchful eye on the proceedings, such political gifts were not part of the repertoire of the Western companies at the table. Unlike those of their Eastern counterparts, the logics of Western companies are largely driven by the financial merits of agreements, where the cost of borrowing from international banks must be sound to garner the required investment.

The march continued for CNPC later on when in 2001 the Chinese company bought a similar commanding share in the Petrodar Operating Company (PCOC) in Blocks 3 and 7 of Upper Nile State. In each of CNPC's concessions, it maintains the majority stake as operator in partnership with Sudapet and other foreign oil companies. This necessity of control is critical to China. The rising economic giant has to ensure access to international petroleum reserves to offset its own depleting energy resources and a skyrocketing demand from its bulging economy. Sudan was the test project for what was the beginning of a global undertaking for China—a reinvigoration of the scramble for Africa with the attainment of energy resources as the top priority. CNPC's investment in GNPOC represented the largest overseas oil project ever pursued by a Chinese firm.[56] Outside of simply buying oil on the open market, China' state-owned companies had now moved to take control of international oilfields. At first this took place in pariah states, such as Sudan, abandoned by the oil majors, but China has quickly raised the stakes and entered more established oil-producing countries in Africa, such as Nigeria and Angola, all in an effort to access and control energy resources for its economy. In these geopolitical manoeuvres company and country act as one. Beijing's control over CNPC is unquestionable and clearly reflected in the company's corporate policies.[57] However, CNPC's governmental shackles are anything but restrictive.

In Sudan, on top of giving CNPC the financial leeway to win Sudanese oilfields with extraordinary bids, China has developed a close political, economic and military relationship with Khartoum. As a result, CNPC's position in the country's oil industry has been significantly leveraged. Beijing has developed a closer relationship with Khartoum by investing in various economic sectors in Sudan outside the oil industry, providing soft loans throughout the years,[58] and has given Sudan greater access to military arms.[59] On the political stage China has also frustrated and stalled Western efforts at the UN Security Council to apply economic and political sanctions against Khartoum.[60] Altogether the multifaceted support provided by China to Sudan has secured CNPC's authoritarian position in Sudan's two largest producing consortiums, GNPOC and PDOC. But such access to Sudan's oilfields in the midst of civil war comes with a meddlesome caveat: violence. CNPC is no stranger to the insecurity of armed conflict in Sudan. Among the incidents that have been reported, an attack on an exploratory drilling rig by the SPLA and the kidnapping of company employees have hindered

activities.[61] CNPC's experience is simply a reflection of the environment. No company was above civil war in Sudan. Its existence significantly slowed down oil development. However, despite the insecurity, the drive of CNPC's governmental directors to acquire energy resources pushed the company through the fog of war. In addition to insecurity, the civil war also created another worrisome, yet short-lived threat to CNPC's supremacy. Not surprisingly, the source was the US government.

Washington's problems with Khartoum would frustrate CNPC's efforts to expand its international presence. It did so by limiting the Chinese company's access to the immense capital offerings available on the US financial markets. In 1999 CNPC aimed to take a significant step forward by listing shares on the NYSE, the Mecca of capital markets for the oil industry, through an initial public offering. However, the bid met vehement opposition in the USA thanks to Washington's foreign policy on Sudan, exemplified by the Sudan Peace Act. Even after CNPC insisted that the bid would only be for PetroChina, a subsidiary with activities in China alone, the final result was deflated from an expected $15 billion to $2.9 billion because of the political opposition.[62] Nonetheless, although the outcome may have slowed down CNPC's international expansion, the tangible effects of human rights pressures were minimal in limiting CNPC's operations in Sudan. Ultimately the financial clout of the PetroChina bid allowed CNPC to gain access to US markets as a result of the failure of the Sudan Peace Act to attach capital market restrictions to its terms. As for the human rights accusations directed towards the company, these were answered with utter silence, clearly reflecting CNPC's shielded position as a state-owned company from a non-democratic country. In fact, the only significant influence political pressure from Washington and human rights advocacy had on CNPC were in helping to clear its path of susceptible, Western competitors. The powerful influences on CNPC in Sudan are the insecurity of civil war that has limited and delayed operations, the positive relationship fostered between Khartoum and Beijing and, most importantly, the increasing demand in China for energy resources. This governmental push outdid all the discouraging pulls that threatened to rip the company away from achieving its lofty goal in Sudan.

In a similar fashion to the Chinese activities, Malaysian and Indian state-owned companies would also carve out their own place in Sudan's oil industry. A lack of oil majors and then of Western competitors altogether guided the expansion of Petronas and ONGC in the country. Petronas, Malaysia's largest company, entered Sudan in 1997, expanding on its already extensive international operations by buying a 30% stake in GNPOC. Petronas also owned a 28.5% interest in the Lundin-operated Block 5A, before also purchasing the Swedish firm's majority share in 2003. Lastly, Petronas is part of PDOC in Blocks 3 and 7, as well as holding interests in Blocks 8 and 15. The company's holdings in Sudan represent its largest foreign onshore operation.[63] In addition to its extensive upstream activities in Sudan, Petronas is also active in the downstream industry, with petrol stations, sea terminals and the construction of a $1 billion oil refinery. Indeed, the Minister of Energy and Mining, al-Jaz, remarked that Petronas and its government

sponsor 'are friends of yesterday, today, and tomorrow, who came to Sudan during difficult circumstances'.[64]

Despite the challenging conditions, India's largest integrated oil and gas corporation, ONGC, would also extend its friendship to Sudan by purchasing the abandoned interests in GNPOC and Block 5A and 5B in 2003 and by increasing its own downstream activities in the country.[65] Such sentiments of gratitude towards Eastern, state-owned companies from al-Jaz are common among the few that have benefited from oil development in Sudan. However, not everyone has felt so obliged to express their thanks.

The SPLA certainly objected to the activities of Petronas and ONGC in Sudan. As an operator Petronas was directly influenced by the civil war. During the conflict company personnel were kidnapped and killed and considered a Sudan posting to be a national service.[66] Security concerns consistently delayed oil development and prohibited any major activity in the company's southern concession of Block 5B. However, eager to capitalise on the opportunity left by Western abandonment, Petronas stayed the course in Sudan as part of a larger effort to access new foreign oil and gas sources.[67] As a financial partner in Sudan, ONGC was indirectly influenced by the civil war. Its engagement in the country was driven by Indian government policy to expand and diversify international sources of petroleum. India is largely dependent on foreign reserves and great concern exists over future access to fuel a growing economy.[68] Consequently, ONGC has set the objective of doubling its reserves by 2020, pursuing international opportunities aggressively.[69] As a relatively new player to the international oil industry, similar to its Chinese counterpart CNPC, Sudan is a learning experience for ONGC that is helping the expansion of its international activities. The shipment of crude from GNPOC in 2003 to India was the first such delivery of Indian-owned oil from a foreign source, prompting the country's deputy prime minister to proclaim: 'this is not imported oil, this is India's oil'.[70] Thus, despite the continuous threats of civil war in Sudan, Petronas and ONGC had a higher national purpose that brought them into the war-stricken country. Correspondingly, this inherent government connection bolsters the companies' standing in Sudan's oil industry.

Also along the same lines as Beijing, Kuala Lumpur and New Delhi encouraged the movements of their parastatals by developing plural relationships with Khartoum. Islamic ties between Malaysia and Sudan fostered Petronas's entry and expansion. Malaysian investment in multiple sectors of the economy and the facilitation of arms deals cemented the company's strong position in Sudan.[71] The subtle Indians established bilateral co-operation with Sudan in textiles, information technology and infrastructure projects.[72] Overall the positive relations between their respective governments have allowed the Eastern companies to maintain strong positions in Sudan. These governmental ties demonstrate the bullish attitude to developing Sudan's oil industry that overcame the insecurity of civil war and brushed off the political demands of human rights activists. The success of the eastern state-owned companies stems from their home governments' demand for international oil reserves in a domestic setting

void of the standard Western competition. This was made conducive by the almost complete invulnerability of their corporate characters to the same political threats that so shrewdly ushered out the Western juniors. Whereas Chevron and Talisman left Sudan as a result of deteriorating relations between the USA and Sudan, the governments of CNPC, Petronas and ONGC directed their companies into the open arms of Khartoum. The Eastern companies were able to avoid conflict-risks presented in the host country and the international environment translating into company costs. As a result, they succeeded in controlling Sudan's lucrative oil industry.

Conclusion

The prominence of political pressure from governments on corporate behaviour in Sudan is not an isolated incident. Casual observation elsewhere in conflict-affected countries reiterates the weighty influence of state actors on MNCs. In Angola, when British Petroleum moved to disclose payments made to the Angolan government, it was immediately faced with threats of losing its licence to operate in the oil-rich country from the ruling party.[73] The warning silenced similar transparency initiatives from other oil companies. Elsewhere the risk of expulsion from Chad because of the government's demand for payment of overdue taxes led both Chevron and Petronas to capitulate to the state's demands, despite their opposition to the claims.[74] The authority and power of governments is the essential factor opening and closing the doors for oil companies in conflict-affected countries. In Sudan both the corporate behaviour of market-driven, Western oil companies and their parastatal counterparts from Asia were guided by the position and influence of states towards their operations. Human rights pressures only seemed effective when transmitted through a government with both little existing economic interest in the country and the ability to influence the targeted company.

The emergence and character of companies from the rising economies of the East have particularly stood out in Sudan and elsewhere, because of their current clear disregard for the demands of international NGOs, dealing a devastating blow to human rights and transparency efforts. This has heightened the collective action problem obstructing the use of companies as levers to influence oppressive and corrupt governments. However, one evident area of common ground for companies from every corner of the globe is state rules. Human rights groups keen on making a lasting impact in conflict-affected countries where the presence of MNCs worsens conditions should maintain a focus on engaging their home governments and new economic powers in Beijing and elsewhere. The acceptance of normative positions by states is vital to ensuring corporations act with conflict-sensitive practices in mind. The involvement of governments in EITI and the Voluntary Principles, as well as efforts to specifically bring China and India into the OECD Guidelines for Multinational Enterprises are commendable and promising endeavours, but arduous tasks to complete. The political and economic interests of strong states are formidable barriers to overcome in

increasing pressure on resource-rich, repressive governments in the Third World. However, resolve and attention is warranted, given the real-life stakes for their populations. In all, while insecurity from the civil war certainly guided much of the activity of all oil companies in Sudan, and while external pressure from human rights groups and internal corporate requirements for profit maximisation were notable for Western firms, it was the demands of the domestic government in Khartoum, the home governments of each company, and the long reach of Washington that ultimately dictated corporate behaviour. There may very well be numerous economic reasons for companies to adopt conflict-sensitive practices, but the hard politics of interacting with states and relations between states themselves stand out as the decisive factors in MNC decision making.

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